

**Les Hardesty farm bill testimony**  
**May 8, 2006**  
**Greeley, CO**

I'm Les Hardesty, a dairy farmer from Greeley, Colorado. My wife, Sherrill and I and our three children operate a 650-cow, Holstein and Jersey dairy on 300 acres. We have been in the dairy business since 1982. We raise alfalfa and corn on our farm. We also raise all our replacement animals needed to supply the dairy operation. I am actively involved in all phases of dairy production, marketing and promotion. I currently serve as chairman for the Mountain Area Council of Dairy Farmers of America (DFA) and as a member of the board of directors. In addition, I am a member of DFA's Executive Committee and serve on the board of directors of two of DFA's affiliate companies. I am also very active in the promotion world, serving both the beef and dairy industries. Currently I serve as vice chairman for the National Dairy Research and Promotion Board and chair the Export and Dry Ingredients Committee of Dairy Management Incorporated. I also serve on the Colorado Beef Council, the National Cattlemen's Beef Association and the U.S. Meat Export Federation.

I appreciate the opportunity to testify at this hearing.

**2007 Farm Bill**

While organizations that I serve for have not officially developed all of the issues for support for the 2007 Farm Bill, some of the major features of that bill should be as follows:

- 1) Continuation of the dairy price support program (DPSP) at its current support level of \$9.90 per cwt. We would oppose granting the Secretary of Agriculture any provision that would reorient its intended purpose from a safety net to farmers versus minimizing government costs. Under President Bush's proposed Ag budget the Secretary of Agriculture would be allowed to adjust buying prices for products made from milk (cheese, butter, and nonfat dry milk) so as to reduce the cost to the CCC for products purchased. This could allow for a reduction in targeted support price from that \$9.90 as specified in present legislation;
- 2) The Commodity Credit Corporation (CCC) should take action and adjust the support program purchase price levels for cheese, butter and nonfat dry milk to reflect the significant additional costs manufacturers face when selling products to the CCC. The current CCC purchase prices for dairy products do not reflect any costs beyond those incurred for commercial sales. As a result, market prices for individual products have, from time to time, fallen below support levels, allowing the price of milk used to produce them to fall below the statutory support level for milk of \$9.90 per hundredweight at average test;
- 3) The Dairy Export Incentive Program (D.E.I.P.) should be used to its maximum allowable levels. The Secretary of Agriculture should be directed to see that the

allowable amounts of cheese, butter and nonfat dry milk are afforded export assistance equal to what we are allowed under the current WTO agreement. Currently no government export assistance is being offered, even though, by law, the Secretary is directed to do so, and by agreement the U.S. is allowed to do so under the WTO agreement.

In addition, I am a strong supporter of Federal Milk Marketing Order system. The cooperative I market my milk to markets milk in every Order and participate regularly in hearings to modify and update Orders. However, the Order system suffers in the ability to promptly process hearing requests. Since CY 2000 it routinely takes from 24 to 36 months to get a final decision after a hearing. USDA Administrators should modernize and streamline the process. It would be appreciated if Congress would inquire into a streamlining process.

### **The Dairy Checkoff Program**

The Dairy Checkoff is a farmer-funded self-help program designed to increase demand for and sales of U.S. dairy products domestically and internationally. The checkoff works in this way: For each hundred pounds of milk sold, dairy farmers contribute 15¢ to the program, through their cooperatives or whoever buys their milk. 10¢ of that money then goes to a qualified program at the state or regional level, and the other 5¢ goes to the National Dairy Board. Most of the 10¢ that goes to a local program is managed by the state and regional promotion groups that make up the United Dairy Industry Association. The National Dairy Board and UDIA came together in 1995 to put their combined resources into one program under Dairy Management Inc.

The checkoff collects about \$260 million a year, the majority of which is invested through Dairy Management Inc. in a single Unified Marketing Plan that is designed to sell more dairy products on behalf of all dairy farmers. Those dollars are invested in research, promotion and in partnership with cooperatives, processors and other industry leaders to overcome the barriers to increased sales and consumption of dairy products.

In the last few years alone, the checkoff has spurred a large increase in fluid milk consumption in quick-serve restaurants and in schools by making a more attractive milk package available to children and their parents.

Today we are working with leaders and innovators to encourage greater innovation and wider availability to give consumers the dairy products and ingredients they want, how they want it, and where they want it.

The checkoff works for all dairy farmers.

Dairy farmers appreciate that the 2002 Farm Bill includes provision for collection of the Dairy Checkoff on dairy products imported to the U.S. As you know, there still has not been any collection of the Dairy Checkoff on imported dairy products. The U.S. Special Trade Representative's office has made the decision that additional legislation is needed

to provide for the collection of the checkoff from dairy farmers in Alaska, Hawaii, Puerto Rico, as well as all the dairy farms located in Washington, DC, before the checkoff can be collected on imported dairy products.

Mr. Chairman, we need this additional legislation even now, before the 2007 Farm Bill. Imports of dairy products are getting a free ride on U.S. dairy farmer's promotion of dairy products.

### **Proposed 2007 Budget**

I would like to address other proposals contained in President Bush's 2007 Budget.

I certainly agree with the following statement in the House Agriculture Committee's February 16, 2006 press release addressing the FY 2007 Budget proposed by the President. "The Committee recommends that any substantive budget changes be considered only when the farm bill is up for reauthorization in 2007. Rest assured that this Committee will have a full, fair, open and comprehensive farm bill debate in 2007 with participation by all stakeholders."

I oppose the proposed 3¢ per hundredweight tax on dairy farmers as proposed by the President and his budget. Dairy farmers currently are being assessed 15¢ per hundredweight to provide funding for our various generic advertising and promotion plans. They are designed to stimulate consumption, improve sales. Increasing demand for dairy products helps keep milk prices above the minimum \$9.90 support price, thus holding down government cost.

To impose an additional deduction on farm milk checks at any time, but especially when the current outlook is for very low milk prices, is unfair and not justified.

75% of the milk in the U.S. is voluntarily contributing an additional 5¢ per hundredweight, or approximately \$60 million dollars per year, to a self-funded self directed supply demand balancing mechanism called Cooperatives Working Together (CWT). This plan provides for dairy farmers to voluntarily offer their cattle for marketing to reduce the number of cows being milked in the U.S. dairy herd. In addition, approximately 20% of the dollars are being used to stimulate export sales of cheese and butter in world markets.

The 5% reduction in government payments for all agricultural programs is also under question – particularly when not all government expenditures are equally being reduced – except for homeland and national security. Farmers will pay their share of the need to balance the federal budget, but we question whether the 5% is fair.

In the 2002 Farm Bill, Congress implemented deficiency payments to dairy farmers through the Milk Income Loss Contract program. Any discussions of this program in upcoming farm bill should not include limits on payments based on milk production.

As the industry comes together there will be other issues and proposals we undoubtedly will support.

### **Dairy Outlook**

The nearby outlook for dairy farmers is not good. Milk prices are currently at their lowest levels in over two years, and the outlook for the rest of 2006 and 2007 is not much better. The price for milk that is used for cheese production commonly serves as the foundation for the price that is received by dairy farmers. It is referred to as the Class III milk price. In 2004 and 2005, the Class III milk price averaged \$14.98 and \$14.40 per cwt. Based on CME Class III futures prices, average prices for 2006 and 2007 are estimated to be \$11.63 and \$12.11 per cwt. In addition for milk prices coming down, farm costs are increasing, putting increased pressure on farm margins. As you are well aware, energy costs are at record highs. High energy costs impact all aspects of my dairy, from fuel used to grow crops, to electricity used to cool my milk, to fuel to transport my milk to market. Under the current situation facing dairy farmers in the U.S., it is not appropriate to consider reducing the safety nets that are currently in place.

Because of lower dairy commodity prices, nonfat dry milk has recently been sold to the CCC through the DPSP. During March and April of 2006, over 20,000,000 lbs. of nonfat dry milk has been sold to CCC at a price of 80¢ per lb. One year ago, the same nonfat dry milk could have found a commercial market for over 95¢ per lb. Cheese prices are also nearing levels that would trigger sales to CCC. The DPSP is working for dairy farmers during times of low prices. This is a very good illustration of why the safety net is needed.

Finally, I would like to commend the members of the House of Representatives for their recent passage of the Milk Regulatory Equity Act. This law closes major loopholes involved with milk pricing in certain parts of the U.S. Thank you.

Thanks for allowing me to testify. I'd be glad to respond to questions.